Interoffice Memorandum

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To: Andy Fastow

From: Jordan Mintz

Department: Enron Global Finance-Legal

Subject: **Related-Party Proxy Disclosures**

Date: April 6, 2001

You will recall that in preparing the LJM related-party disclosure for this year's (2000) Proxy, we did not disclose financial information regarding your interest as the ultimate general partner/managing member in either LJM1 or LJM 2. The purpose of this memorandum is to explain our reasons for concluding such a disclosure was not required in either 1999 or 2000 and to explain why such rationale(s) may not be applicable in future filings.

Discussion

The Proxy Rules require -- among other things -- a description of the related party's (i.e. LJM's) interest in transactions entered into with the registrant (i.e. Enron), the nature of such interest, and -- "where practicable" – the amount of such person's interest in the transaction(s). It is this last piece of information relating to your financial stake that we have not explicitly disclosed because the Legal Department, in consultation with our outside counsel, has concluded disclosure was not mandated. In both the 1999 and 2000 Proxies we have generally provided as follows: "The general partner is entitled to receive a percentage of the profits of the partnership in excess of the general partner's proportion of the total capital contributed to LJM1/LJM2, depending upon the performance of the investments made by LJM1/LJM2." Thus, it is clear that, at a minimum, there is public disclosure that you, as the general partner in these two investment vehicles, are entitled to receive some level of carried interest.

Our rational for not disclosing any additional financial information related to your general partner interests varies as between 1999 and 2000 and, in particular, with respect to the RhythmsNet transaction, as follows:

(1) 1999: The "where practicable" language in the Proxy Disclosure Rules gave us the basis for not providing additional financial information in 1999. More specifically, the majority of the transactions entered into in 1999 between Enron and LJM1/LJM2 -- and specifically the RhythmsNet hedge -- were "open" transactions during the 1999 fiscal year and had not yet settled or liquidated in a fashion that it would be "practicable" to determine what you earned in your general partner capacity. The "open transaction" basis applied to both the RhythmsNet transaction and the newly-executed LJM2-related acquisitions and hedges for 1999.

(2) 2000: We determined it was not practicable to quantify your interest in LJM2 in the most recent Proxy, again, based on the existence of multiple open and

unmatured transactions making it impracticable to compute. The rationale for not making any additional disclosures relating to the settlement of the RhythmsNet transaction, however, is somewhat different. In particular, the RhythmsNet transaction settled in 2000 pursuant to terms allowed for under the original agreement. At settlement of RhythmsNet it may have been practicable to determine your financial interest. However, no further disclosure was otherwise required of the RhythmsNet transaction in 2000 because settlement occurred under conditions permitted in the original agreement. Thus, there was no new transaction involving LJM1 and Enron in the year 2000 required to be disclosed in this year's proxy; accordingly, we have concluded that there was no requirement to disclose any financial information related to what you may have earned in that transaction – notwithstanding that it was now more practicable to do so.

The decision not to disclose in this instance was a close call; arguably, the more conservative approach would have been to disclose the amount of your interest. Given other pertinent (and competing) issues that you and I have discussed at great length, we decided against doing so. It was, perhaps, fortuitous that the RhythmsNet transaction extended over two proxy filing years and the specific facts of the particular case allowed us to conclude that a disclosable transaction occurred only in the year in which financial disclosure was impracticable. Thus, we have relied on two different arguments for avoiding financial disclosure for you as the LJM1 general partner in both 1999 and then 2000. If, however, the RhythmsNet transaction began and concluded in the same year, it would have been more difficult to avoid making some additional level of financial disclosure.

Going Forward

This disclosure issue will continue to be a challenge as transactions entered into between Enron and LJM2 settle and, as such, it becomes "practicable" to quantify and, therefore, be required to disclose the amount of your financial interest. To that end, we need to continue to be cognizant of this issue as the year progresses and continue to consider some of the safe-harbors provided under the SEC rules from having to disclose related party transactions – including the (1) competitive bid and (2) reduction of general partner control alternatives we have previously discussed. I, of course, will continue to examine other alternatives, as well.

After you have had a chance to review this summary, I am available to discuss any questions or comments you may have.

Cc: Jim Derrick
Rex Rogers
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